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ABSTRACT

This document is a transcript of a seminar that explored the long-term causes and consequences of the decline in wages, incomes, and living standards experienced in the United States in the last 12 years. It was published in order to encourage wider public discussion of the causes of U.S. economic problems so that citizens, the press, and public officials can develop an informed agenda for public action. Participants in the seminar moderated by Jeff Faux; were economists Lester Thurow, Frank Levy, and Barry Bluestone; political scientist Ralph Whitehead, Jr.; and unnamed members of the press. Following the individual statements by the economists and political scientist, most of the document is devoted to questions (presumably asked by members of the press) and their answers. The document concludes with a list of 17 references. (CML)

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Seminar:

DECLINING AMERICAN INCOMES AND LIVING STANDARDS

- FRANK LEVY
- BARRY BLUESTONE
- LESTER THUROW
- RALPH WHITEHEAD, JR.
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INTRODUCTION

For almost three decades after World War II the United States enjoyed an unprecedented period of prosperity. Jobs, rising incomes and government programs swelled the middle class and dramatically reduced the incidence of poverty. The huge post-war "baby boom" generation seemed poised to inherit an even higher standard of living.

But in the last dozen years many of the trend lines measuring American prosperity have flattened out, and some have even turned downward. For example, average real wages remain today substantially *below* their levels of the early 1970s. Despite the rise in the number of two-income households, median after-inflation family income has also dropped. Evidence of lower incomes and living standards is particularly pronounced among younger workers, indicating that the generation whose economic prospects once looked so promising is *actually* experiencing more restricted opportunity for good jobs, advancement and income growth than did their parents' generation.

At first, many experts advised Americans that these trends were only temporary. They were said to be products of extraordinary "jolts" to our economic system, like the oil shortage, or of demographic aberrations, like the baby boom, which would disappear with time.

Others argued that declining incomes were caused by excessive growth of government. In 1980 a new Administration promised that its program of radical cuts in the civilian government activities would unleash productive private investment and spark a long term economic boom. Almost six years later, investment was stagnant, the unemployment rate remained at levels that once would

have signaled a recession, and the central premise of so-called "supply-side" economics had failed the test of the real world.

In May of 1986 the Economic Policy Institute brought together economists Lester Thurow, Frank Levy, Barry Bluestone and political scientist Ralph Whitehead, Jr. in a seminar with members of the press in order to explore the long term causes and consequences of the changes in wages, incomes and living standards Americans have experienced in recent years. The resulting dialogue among these experts and the participating journalists was rich and productive, and several newspaper and magazine articles and television news reports have since been produced, incorporating analyses and insights generated by the seminar.

The participants in this seminar approach the problem of declining wages and stagnating incomes from different perspectives, and they differ with each other on particular points. But all reject the simplistic idea that the long-term decline in living standards has a single cause. A variety of factors, including slow productivity growth, international competition, demographic changes, inflation and economic instability, declines in union membership, and wrong-headed government policies share the blame. And all the participants are in agreement that without bold and innovative political leadership the prospects for permanent reversal of these recent economic trends are not good.

The Economic Policy Institute is publishing the transcript of this seminar in order to encourage wider public discussion of the causes of America's economic problems so that citizens, the press and public officials can develop an informed agenda for public action. Future seminars will take up other economic challenges facing America and the world economy, and evaluate specific proposals to meet those challenges. Such continuing discussion is essential for developing the democratic consensus we need to build a freer and more prosperous future.

—Jeff Faux
President
Economic Policy Institute

FRANK LEVY

JEFF FAUX

This is the first of a series of seminars on economic issues and trends. The program is part of an effort of a number of economists associated with the Economic Policy Institute to widen the debate on economic issues.

Today's discussion will be on income and living standards in America. From the point of view of the average worker and consumer, income and living standards are probably the basic measure of how the economy is performing. Polls tell us these are also uppermost in voters' minds when they enter the voting booth. So, this morning we have with us three economists and one political scientist to bring together both an economic and a political analysis.

We'll start with Frank Levy. Frank is a professor at the University of Maryland who, along with his partner Richard Michel, has been studying family income over the last several years. Their work has been published by the Joint Economic Committee, the Urban Institute, and they are now working on a book, entitled *Dollars and Dreams: The Changing American Income Distribution.* Frank.

From the point of view of the average worker and consumer, incomes and living standards are probably the basic measures of how the economy is performing.

—Jeff Faux

FRANK LEVY

My sense is that by the end of the discussion you'll hear a lot about growing inequality among wages and different income groups. That's all quite important. But, what I would like to focus on is something different: the issue of growth of wages per se.

Is the whole distribution moving to higher and higher incomes? Or is the whole distribution slipping back?

Let me describe a conversation I had with an older friend at the time I was beginning this book on the post-war income distribution. He said that if he had gotten into the labor market two years earlier, it would have been a great help to his early career. I said, "Look, two years is not going to make a whole lot of difference. I don't really understand what you're talking about." He said, "I came out of college in 1932. In 1932, you could not find a job. People who came out in 1930 were able to find jobs and were also able to climb the ladder enough so that when the Depression really got bad they were able to hang on. So, the two years made an enormous amount of difference to me."

I took two lessons from his story. One was that these easy phrases about 'demography is destiny' used in connection with the Baby Boom are too simple. Demographics may have some impact, but more important are the kinds of economic conditions you come out into. The second lesson is that economic conditions are not forever. If you look at the first eight or nine years of my friend's career, they were very hard. But then he went on to work most of his life in the 50s, 60s and early 70s, and he ended up doing quite well. And so it's very hard to forecast from kind of a bad start what the rest of a person's career is going to be.

The biggest cohorts of the Baby Boom came into the labor market with the first OPEC price increase in 1973–74. That period ushered in twelve years of real wage stagnation—above and beyond any of the problems the Baby Boom would have had.

—Frank Levy

The relevance of this story for the Baby Boom comes from a big historical accident. The biggest cohorts of the Baby Boom—the ones born around 1950 and after—came into the labor market with the first OPEC price increase in 1973–74. That period ushered in twelve years of real wage stagnation—above and beyond any of the problems the Baby Boom would have had. This stagnation was a fairly subtle thing. In the case of the Great Depression you had bread lines and mass unemployment, and it was very easy to visualize the economic problems. The problems of the last twelve years have been more subtle. It's very hard to figure out whether you're gaining or losing ground because your money wages certainly go up, but prices go up too.

Let me give you one example of the stagnation that has nothing to do with the Baby Boom, so that you can understand the general problem. Suppose you're talking about a man who's moving from age 40 to 50. When a man has reached his early forties, he's had

his big promotions. So, if you look at census data in *any one year*, 40 and 50 year-old men had similar earnings. But, in fact, if you look at what happens to 40 year-olds as they pass to 50, their wages will increase if wages are growing throughout the economy. Prior to 1973, you find that a man passing from 40 to 50 saw his earnings increase in real terms by about 25 to 30%. If you look at a man who was 40 in 1973, by 1983 he was earning about 14% *less*—as opposed to 25% more—than what he was earning in 1973.

What happened? There are two answers: 1) the OPEC price increase in 1973 knocked down purchasing power by about 5%; 2) then, for a variety of reasons, the growth of industrial productivity ground almost to a halt.

Productivity measures output per hour of work. If output per hour doesn't go up, then real wages do not go up.

So, you have the 1973 OPEC price increase knocking wages down, and then very slow productivity growth. So, we were just able to recoup 1973 wage levels by about 1979. Then the Shah of Iran falls, we have OPEC II, and we start the process all over again. So that, now we're about at the level, on average, that we were in 1973.

If the economy was bad for everybody, why should we feel particularly sorry for the Baby Boom? Again, there are two answers. One is that they did have the additional disadvantage of their huge cohort sizes, which would have meant they would have had trouble establishing themselves even in a good economy. Let me just give you some comparable figures. Before 1973, young men going from 25 to 35 could see their real earnings grow by about 120% because they were picking up the effects of a good economy and they're also on the phase of their careers where promotions come quickly. But, the 25 year olds in 1973, over the next ten years, saw their earnings increase by 16% on average, as opposed to 120%. So, at a time when they should be going up like rockets, they're just barely beating the curve.

The second disadvantage for the Baby Boom involves mortgages. As you know, debtors always benefit in a time of inflation. And so people who bought homes early found it easier and easier to make their mortgage payments because they were paying off their

The second disadvantage for the Baby Boom involves mortgages. Younger workers have had a much more difficult time buying into the housing market.

—Frank Levy

mortgages in inflated dollars. So, the middle-aged workers had that cushion to keep their purchasing power growing, at least as long as they weren't in an industry that was declining. Younger workers have had a much more difficult time buying into the housing market.

This analysis is not without criticism. Lindley Clark in the Wall Street Journal said, "Well, look at consumption per capita. That was rising really well in the 70s. So, what's the problem?"

The problem with the figure for consumption per capita or income per capita is that it's very, very sensitive to family structure. What you had in the 70s was a series of events which together caused the proportion of the entire U.S. population who was working to go from about 40% to 50%. First, many women went into the labor force. Second, the Baby Boom itself came of age and put a big bulge in the workforce. And third, the Baby Boom didn't have any kids. So, even though incomes *per worker*—wages—were not growing, income *per capita* could keep on growing. You can say: "What's wrong with that? If people want smaller families, who cares?" What's wrong with that is it's no long run solution to keep consumption growing. You can wring out these changes for ten years. But now women's workforce participation has leveled out and the birth rate is not going to fall much further. And so if income per capita (per man, woman and child) is to keep growing, real wages must grow.

BARRY BLUESTONE

JEFF FAUX

Now we're going to hear from Barry Bluestone. Barry has just been appointed to a new professorship at the University of Massachusetts. Before that, as many of you know, he was head of the Social Welfare Research Institute at Boston College. Among many other accomplishments, he is the author, along with Bennett Harrison, of *The Deindustrialization of America.*

BARRY BLUESTONE

Between now and the end of the decade, the economic debate will focus on two thihgs. One is productivity. The other question that will receive a great deal of attention is the question of stagnating incomes and income distribution.

There has been a lot of good economic news over the last several years. Relative to Europe, for example, the U.S. has been a haven for job creation. If you consider the 1978 to 1984 period, we created in the United States almost 11 million net new jobs.

But, there is also a lot of bad news. The manufacturing base continues to decline despite dramatic reductions in the value of the dollar and despite significant increase in GNP. We seem to be stuck somewhere in the neighborhood of 18 to 19 million jobs in manufacturing and *no one* expects that number to increase.

The manufacturing base continues to decline despite dramatic reductions in the value of the dollar.

—Barry Bluestone

Everyone around this table knows that job growth has been coming from outside the manufacturing sector. But from where in the *job distribution* are the new jobs being created? We've just

run some new numbers, based on Current Population Survey data, to look at what's been happening. The standard we used in this research was the Bureau of Labor Statistics' urban budgets for a family of four.

We took the low budget and cut it in half, which gives us a low wage standard: $8,685 (in 1984 dollars)—not a very good living. Then we looked at the number of net new additions to the labor force working at this standard or less. We found that no more than 26% of the 27 million net new additional workers in the economy between 1963 and 1978 earned below half of the low budget standard. However, for the period 1978–84, when we had 11 million jobs created, more than 37% were working in jobs that paid an annual wage less than that $8,685 figure.

Indeed, we had job creation, but the new jobs have been disproportionately in the low wage sector. This reflects the fact that the new jobs have all been in services and trade where wages are lower than in manufacturing or construction. For instance, in retail trade, the average job pays about 45% of the annual wage in manufacturing. The entire "service economy" (including many of the very high wage professional jobs) pays two-thirds of the typical job in manufacturing. Thus, the United States has generated a good number of jobs, but these have contributed much less to income. That's why we have seen stagnating income growth despite the very buoyant employment numbers.

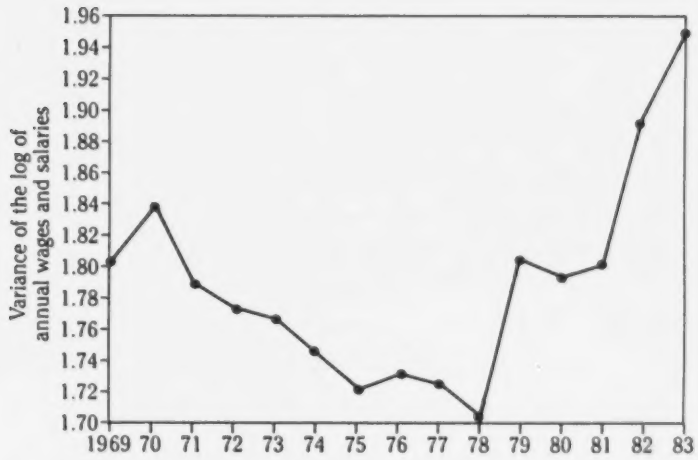
Indeed, we had job creation, but the new jobs have been disproportionately in the low wage sector. That's why we have seen stagnating income growth despite the very buoyant employment numbers.

—Barry Bluestone

The second point has not so much to do with the level of pay per se, but with income distribution. Ben Harrison and I have been looking at the changes in the wage and salary distribution over the 1963–84 period. What we've found is rather dramatic, and we call it the Great U-Turn. There was a systematic decline in the inequality in earnings from 1963–78 with very little fluctuation around that very steep decline. Then beginning in 1978, the U-turn turned around; inequality began to rise. It rose rather steadily before the election of Ronald Reagan and after 1980 it took off rapidly. By 1984, we are nearly back to the level of earnings inequality where we were in 1965, before the major economic opportunity programs actually produced results.

When we turn to the income distribution, we see this same pattern especially in a recent study done by the Congressional Research Service by Belous and LeGrande. Using the GINI

Inequality in Annual Wages and Salaries 1969–1983



Source: Census, *Current Population Survey*

From "Wage Inequality Takes a Great U-Turn" by Barry Bluestone, Bennett Harrison and Chris Tilly in *Challenge*, March/April 1986 issue.

coefficient—another measure of inequality—they found that by 1984, after a very significant decline in income inequality, the degree of income inequality is back to its 1947 level, the first year such data were collected. Again, a very smooth U: dramatic improvement in the 1950s and the 60s, reversed dramatically in the mid-1970s.

Finally, still one last piece of research adds to the story. At the Social Welfare Research Institute at Boston College, we have been using a model, produced in part for the Department of Health and Human Services and in part for the Joint Economic Committee, called the Multi-Regional Policy Impact Simulation Model. It's an enormous computerized simulation model of the economy. One of the last things we did with the model, in this case study for Congressman David Obey, the chairman of the JEC, was to look at the impact of the budget and tax policies of 1985 compared with those policies in 1981.

We found a dramatic increase in poverty despite the increases in output, GNP, and employment. About 400,000 families rose

The combination of slow economic growth, no productivity growth, and government policies which have exacerbated the inequality have given us this dramatic U-turn in America's future.

—Barry Bluestone

out of poverty according to our results, but another one million families actually ended up in poverty, leaving a net increase in impoverishment in this country of more than 600,000 families. The combination of slow economic growth, no productivity growth, and government policies which have exacerbated the inequality has given us this dramatic U-turn in America's future.

LESTER THUROW

JEFF FAUX

Thank you, Barry. Lester Thurow hardly needs an introduction. He's a world class economist who teaches at MIT when he is not making speeches and consulting with governments, business and labor here and around the world. He wrote *The Zero-Sum Society* and *The Zero-Sum Solution*, among many other books. He's also a man of demonstrated interest in this subject: he joins us after taking the red-eye in from Phoenix this morning.

LESTER THUROW

If you look at this income distribution issue, I think the key thing to remember is that you don't want to put a lot of reliance on any one number. You want to look at the collage of what's going on and read it as a mass of statistics and ask 'what is the center of gravity that the statistics show?' It's a little bit like plate tectonics—every once in a while you have a giant shift that causes earthquakes and volcanoes, and only afterward can the geologists tell why it happened, but they can't predict when it will happen. I think income distribution is a little bit like that. In a paper I wrote for the American Economics Association meetings in December, I argue that we're currently in the midst of one of those tectonic surges.

In the 1920s we had a real surge towards inequality, which then was wiped out in the Great Depression and the high incomes that followed the policies of the 40s, 50s and 60s. Now we've got another movement towards inequality. It has a multiplicity of causes. And I'm going to talk about one or two of them.

Every once in a while you have a giant geological shift that causes earthquakes and volcanoes and only afterward can the geologists tell why it happened. Well, I think we've got something going on in the income distribution that's a little bit like that.

—Lester Thurow

But let me first illustrate the inequality by just looking at a few of the numbers other than the kind of numbers that Barry's been talking about. For example, suppose you define a mid-income male job as one that pays between 75–125% of the average wage of that day and age. If you look at full-time, full-year males back in 1976, you find that 38% fell into that middle class category.

By the time you get to 1984, you're down to 32.5% of the males falling into that middle income category. And even if you take a growth year like 1983–84, when we were recovering from the recession and creating jobs like crazy, what you'll find among male earners is that the total number of male earners rose by 216,000. But the number of middle income male earners fell by 197,000. And so even a boom year like 1983–84, didn't really produce any turnaround in this surge toward inequality.

If you look at household income data you see that it's not really that the poor are being squeezed. The group that's losing the most are the people who fall from the 20th to 60th percentile—the lower middle class.

The income share of the bottom 20% may be down slightly, but that's even a debatable statistic. Where the big decline has come is between the 20th and 60th percentile. The people between the 60th and 80th have essentially held their own, and the gains have been from the 80th to 100th percentile. But, for example, in 1984 the share of income going to the bottom 60% of population was the lowest in recorded history. Now, recorded history only goes back to 1947, but the bottom 60% of the population since we've collected this data has *never* gotten a smaller share than it did in 1984.

The group that's losing the most are the people who fall from the 20th to 60th percentile—the lower middle class.

—Lester Thurow

One other fact: the Federal Reserve Board has a better distribution of income series than the Census Bureau because it captures capital income. It shows that the income share of the top 10% from 1969–1982 has gone up from 29% to 33%. That's a real earthquake if the top 10% of the population can add 4 percentage points to their share of total income. The 4 percentage points are a big fraction of somebody's income lower down the spectrum.

Some of the Federal Reserve Board data are almost impossible to believe. For example, in 1977, 25% of all American households owned at least one share of stock. By the time you get to 1983,

only 19% of all American households owned at least one share of stock.

And so, census data points in that direction, Federal Reserve Board data points in that direction, and every other series of data that you look at points in the same direction. It's clear that you have some big adverse shift in the distribution of income.

Now, the one causal thing I want to talk about this morning is essentially international trade. What I did for this paper for the AEA is to take the distribution of imports and exports by product, grind it through an input/output table, generating measures of the distribution of earnings by industry. And using that technique, you can essentially calculate the distribution of earnings for the American exporting industries, distribution of income for the American import-competing industries, and, of course, you have the distribution of earnings for the total economy.

And so, as exports fall and imports rise, you can see how the effects of international trade basically affect the American distribution of income. And that's the data basically there on the table I passed out. *(See page 12.)*

The interesting thing is that both exporting industries and import-competing industries are high wage industries. The export industries have an average income of $18,637 and the import-competing industries have an average income of $19,583. The whole economy is only $16,168. And so when exports fall and imports rise, you're losing a set of jobs which are above average in the American economy.

In 1977, 25% of all American households owned at least one share of stock. By 1983, only 19% of all American households owned at least one share of stock.

—Lester Thurow

That's what a $150 billion trade deficit means. Our exports were falling and imports rising. But it's not just that it affects the level of income; it also affects the distribution. For example, only 31% of the workforce in export industries is in jobs that pay less than $12,500 a year. In import-competing industry, only 30% of the workforce is in that low wage category. But in the economy as a whole, 41% of the workforce is in that category because the low wage jobs are not in the export industry and not in the import-competing industry.

And so when you have this big trade deficit, you tend to lose your best jobs. Now, that's not a surprise. Suppose you're sitting

Distribution of Earnings
Export and Import—Competing Industries

1983

Annual Earnings ($1000s)	% of Workforce in Total Economy	% of Workforce Export Industries	% of Workforce Import-Competing Industries
1–2	11.4%	6.9%	6.5
2–3	3.3	2.2	2.1
3–4	3.1	2.1	2.0
4–5	2.6	1.9	1.8
5–6	2.7	2.1	2.1
6–7	2.5	1.8	1.8
7–8.5	4.4	3.8	3.7
8.5–10	3.1	2.8	2.8
10–12.5	7.9	7.7	7.6
12.5–15	5.7	5.8	5.8
15–17.5	7.7	8.3	8.3
17.5–20	5.5	6.5	6.6
20–25	11.6	14.1	14.2
25–30	9.1	11.2	11.3
30–40	10.6	13.0	13.2
40–50	4.0	4.7	4.8
50–60	2.0	2.2	2.2
60–75	1.2	1.2	1.3
75+	1.5	1.4	1.4
	100.00%	100.00%	100.00%
Median	$16,168	$18,637	$19,583

1969

Annual Earnings ($1000s)	% of Workforce in Total Economy	% of Workforce Export Industries	% of Workforce Import-Competing Industries
0.5–1	7.7%	4.4%	4.5
1.0–1.5	4.9	3.3	3.3
1.5–2.0	3.6	2.6	2.6
2.0–2.5	3.0	2.1	2.1
2.5–3.0	2.8	2.2	2.2
3–4	2.1	1.7	1.7
4–5	5.3	5.1	5.1
5–6	5.9	5.8	5.8
6–7	7.3	7.6	7.6
7–8	8.2	9.2	9.1
8–10	9.3	10.9	10.9
10–15	14.5	17.8	17.8
15–25	6.2	6.1	6.0
25+	1.8	1.4	1.4
	100.00%	100.00%	100.00%
Median	$6,902	$7,550	$7,550

From "A General Tendency Toward Inequality" by Lester Thurow in *American Economic Review*, May 1986.

in MITI planning Japanese industrial strategy. What industry are you going to attack? You're not going to attack the low wage industries. You're going to attack the high wage industries.

And it's important to understand that, if you look at the deficit in the American balance of trade, it's not with the Third World countries that pay low wages. If you take our $150 billion trade deficit for 1985, $130 billion is with the high wage countries—Japan, Europe and Canada. Only $20 billion of the deficit is with low wage Third World countries. And so our international competition is precisely for those high-tech, high wage, high income jobs that you've got in this system.

You don't want to push these trends too far, but if you had a balance of trade between exports and imports in 1969, the two would have been offsetting because there wasn't any significant difference between the characteristics of the export industry and the characteristics of the import-competing industry. But in 1983 you can see that the import-competing industry is a much better industry than the export industry.

So, you can see some kind of systematic deterioration in the income producing quality of our exporting industries. On the other hand, the rest of the world is upgrading themselves in terms of what they export into the U.S.—what we import from them—and it is having an impact on the distribution of jobs.

There are those who say that this is all statistical artifact. For example, the argument is made that for a long period of time the Census Bureau didn't really collect data for high income people. People just checked a box that said I earn over $75,000 a year or whatever. So, of course, if you're trying to calculate distribution measures, you've got to have some way of estimating how much over $75,000 a year these people have. And in 1979 the Census Bureau changed the methodology of that calculation. And so you can't say a small change between 1978 and 1980 is significant, because it may just come out of the way the Census did its calculations.

When exports fall and imports rise, you're losing a set of jobs which are above average in the American economy.

—Lester Thurow

But two things are obvious by now. First of all, the same trend has continued *since* 1979. Just look at 1980–1984 when there have been no changes in the census methodology and you get exactly the same kind of trends. So the evidence there now seems to be

reasonably clear that change in methodology wasn't just a one-shot change moving us more towards inequality; it may have made the movement look a little bigger than it otherwise was. But it basically didn't cause it.

The other kind of study which has been talked about in the press—it is also misleading—is this one by Rosenthal at the BLS. I want to explain to you just for a minute what he did and while the numbers are true, it presents quite a misleading picture of what goes on. What he did was take 416 occupations and look at the median income/earnings of those occupations and then plot them from the lowest earning job to the highest earning job. Well, average incomes have risen a little bit, so I get a higher trend line, but if I look at the fraction of the jobs in the lowest third, the middle third and high third, they haven't changed at all.

The problem with Rosenthal's approach is that the human beings involved have changed. When we say that the wage of a printer is $20,136, we don't really mean the wage of every printer is $20,136. That's just the median wage. What's happened is the variance *within each occupation* has spread out. And so you have many more low wage people by the time you get to 1983. Even though you don't have many more low income occupations.

So you can simultaneously have this data which says the number of occupations in the bottom third, middle third and top third hasn't changed. Yet the number of *human beings* in the bottom third of income distribution, middle and top third has changed.

It isn't that we're moving to a more unequal distribution of occupations. It's that *within* occupations we're moving to a more unequal distribution.

RALPH WHITEHEAD, JR.

JEFF FAUX

To complement our economists this morning, we have Ralph Whitehead, Jr., who used to be on the other side of this table as a reporter. Ralph is at the University of Massachusetts where one of his accomplishments has been the deflation of the political reputation of the "yuppie". He's also a much sought-after political consultant, and has developed an influential analysis of what he calls the "new collar" class.

RALPH WHITEHEAD, JR.

Through the good offices of our friend Richard Dennis, my wife and I've been able to move around the country this last year and visit younger, moderate income couples, usually in their homes. On the basis of this work I can say that the global and national forces that have been laid out for you *are* out there and working themselves out in the way younger people are living in the country today. Let me give you a typical case.

We had a pizza in Parma, Ohio a few weeks ago with a young couple. He's 35; she's 31. After high school, he worked five blue collar jobs and was laid off in each job—chiefly because the companies were going down the drain or changing hands. She hadn't gone into blue collar work, but had been a fast-food attendant and waitress.

This guy got so discouraged that in 1975, at the age of 25 with a wife and two children, he decided he had to make a major change and enlisted in the army. He figured, 'computers are go-

There is a bread-and-butter agenda emerging now among moderate income younger voters and workers.
—Ralph Whitehead, Jr.

ing to be the big thing.' Well, he was defrauded by his recruiter. Instead of getting what we would now call the kind of high-tech technical training that he had bargained for, he stood around on a parade ground in Hawaii.

He then had the gumption to get hold of Senator Howard Metzenbaum. He got an honorable discharge and wound up going through a six month Control Data Institute program, coming out the other end as an electronic technician who repairs electronic cash registers and other machines. He's now on his fourth job in that field. So, three careers: blue collar worker, soldier and now sort of EMT for sick cash registers. It is an *extremely* stressful job. If you saw the portrait in the *Wall Street Journal* a while ago about what's going on at the United Parcel Service, then you know what kind of pressure employees are going through as companies industrialize the service sector.

This guy's company is seven years old. It is small. It doesn't have a lot of market power—the power to set its prices and wages a way that General Motors could in the 1950s. He has a moderate salary—it would fit nicely on Lester's list of import-competing industries—but doesn't have a good fringe benefit package.

His wife, on the other hand, works for another small company, sixteen or seventeen years old, without much market power. She doesn't earn much in salary but gets a good health insurance and life insurance plan. So they have sort of pieced together one good job between them. The major force in their life is the hectic pace and high stress. They've got three kids. They have a house, but can just barely afford it. They are living out day-by-day the forces that the panelists here have been talking about.

For years, experts have said that people will change jobs and even careers many times. That's not a prediction any more. It's history. These people live with it.

—Ralph Whitehead, Jr.

They believe lifetime job security is a thing of the past. They can call the roll of uncles and fathers and a few aunts who had 25 to 30 years in a manufacturing job and lost it nonetheless. You don't have to prompt these people; you can just sit in their living room and listen, and they will volunteer to you that we are changing from a manufacturing economy to a service economy. That kind of notion that was at first being developed by elite observers and then was popularized in the early 80s is now something that people talk about over the kitchen table.

I think that what's happening—and we can see a little bit of

it in the Pennsylvania primary results for the Senate—is that there is a bread-and-butter agenda emerging now among moderate income younger voters and workers.

They're concerned about home ownership or, if they have a home, they are concerned about the cost of home ownership: insurance, utility rates. They are concerned about child care. That's now an essential, as essential to holding a job as owning a car has been. They're concerned about good public schools. They're concerned about college opportunities for their kids. Particularly people who are from blue collar families and have done blue collar work for a while, know that they have to make sure that their kids get a boost up and out of it. And they are particularly concerned about their ability to keep their own balance in what they know is a rapidly changing job market.

For years, experts have said that people will change jobs and even careers many times. That's not a prediction any more. It's history. These people live with it.

Just a word on Pennsylvania. What happened, as best I can tell through several visits there during Bob Edgar's campaign, was that he beat the endorsed candidate of the Pennsylvania Democratic Party by fashioning an interesting coalition of labor, grassroots activists, black voters, and 1984 Hart-voters. That's a coalition that a lot of people in the Democratic party after November of 1984 would have thought should be put together in the future, but is easier to envision in theory than to execute in practice.

The campaign did it by stressing these bread-and-butter issues like utility rates and job opportunities and life-or-death issues like toxic waste. It was fueled by the canvassing and persuasive energies of the Citizen Action network. Thousands of people went door-to-door for months in Pennsylvania and helped him carry industrial strongholds like Erie County. Something new is happening; Edgar was able to go far beyond an upscale liberal base in Greater Philadelphia and carry younger working-class voters with a new bread-and-butter agenda that's an updated version of the Democratic Party's classic bread-and-butter agenda of the 1940s and 1950s.

In the Pennsylvania Democratic Senate primary, Edgar was able to go far beyond an upscale liberal base...and carry younger working-class voters with a new bread-and-butter agenda.
—Ralph Whitehead, Jr.

Speaking as someone who wants to vote for the Democrats,

I would also say that what the comments of these gentlemen show is that if the Democratic Party wants to talk about its golden age, then it will shift from a discussion of what it did in the 1930s to a discussion of what it did in the years from roughly 1945 to 1965. This is the contribution the Democratic Party made through the rise of Keynesian economics, the Employment Act of 1946, the GI Bill, VA and FHA mortgages, college loans and other investments in talent that built what was once a remarkable globally competitive economy. We've declined from those heights and a lot of young people now look back at those days with some regret.

If the Democratic Party wants to talk about its golden age, then it will shift from a discussion of what it did in the 1930s to a discussion of what it did in the years from roughly 1945 to 1965.

—Ralph Whitehead, Jr.

QUESTIONS AND ANSWERS

JEFF FAUX

Thank you, Ralph. Let's open it up for questions.

QUESTION

We've all observed the trends you've been talking about, but notwithstanding everything you've said, few people would doubt that overall we're better off economically today than we were in 1979, which suggests that something must have been done right. We've also observed that a lot of those you've been talking about voted for Ronald Reagan.

LESTER THUROW

I think this is one of those places where people have this perception that they're better off, but statistics show that they're worse off. For example, after correcting for inflation, the average male worker in the United States has had a 9.3% reduction in his real wage from 1976–84. But, he has a perception that he's better off.

I think it has to do with the inflationary phenomena. What people think is that after inflation stops, their real standard of living is going to start rising. They may even have a perception that it's rising because prices aren't rising. But what they forget to factor in is that, when the inflation stopped, the money wage gain stopped.

I suspect what's going to happen—and this fits in with the

People will realize that inflation has stopped, and that's a good thing, but their real standard of living is still falling.

—Lester Thurow

political agenda because it takes two or three years after inflation stops—is that people will realize that inflation stopped and that's a good thing, but their real standard of living is still falling. And that my real standard of living, even during the inflationary period wasn't falling because of inflation, it was falling because of productivity. See, if productivity is rising at 3% a year, it doesn't make any difference how fast prices are rising; real standards of living have to rise. If productivity is stagnant, it doesn't matter how stable prices are; real standards of living are going to be stagnant. Inflation hits you over the head—every family knows what it is and can see it every day. Productivity is hidden. But productivity is *much* more important to the real standard of living of the average family.

FRANK LEVY

Someone like Ben Wattenberg will say, "But look at all the VCRs we sold between 1979 and now. How can you say that times are bad?" Again, I think that one answer is the low birth rate. You know, we talked a lot about borrowing against the future in terms of how much of our assets are now owned abroad and how big the Federal deficit is. But, another way, in essence, that we have really have borrowed against the future is by a very low birth rate. When you hear these statistics that say that 20% of all children are now being raised in poverty, what the number represents is not just that poor families are having kids, but that potentially middle class families are *not* having kids. If you go to somebody today and say, "Materially, are you as well off as your parents were?", they'll say, "Of course, we have a VCR and we have all these things." But, if you say, "If you had the same number of kids as your parents did and you only had one earner like your parents did, could you support that standard of living?", they'll laugh at you.

If you say [to baby boomers], "If you had the same number of kids as your parents did and you only had one earner like your parents did, could you support that standard of living?", they'll laugh at you.

—Frank Levy

And so I agree with what Lester said: inflation is down and that's very important, but we've also had this radical transformation of what the family looks like which allows us to wring out increased standards of living for while, but not forever.

LESTER THUROW

Let me make one more point. Our 150 billion dollar trade deficit is between 3 and 4% of the American GNP. As long as we can do

that, that means that you and I can have a consumption standard of living that's 3 to 4% above our production standard of living. We know that you can't do that forever, but while you're doing it, it's like having a great party on borrowed money. You say, "I feel good, I'm having a party, what's wrong?" Well, what's wrong obviously is at some point you're going to have to pay that bill.

RALPH WHITEHEAD, JR.

I also think that you have to distinguish between Reaganism as an economic strategy and Reaganism as a mood modifier. It works better—extremely well—on the second score.

QUESTION

What kind of work have you guys done, in fact to look ahead to what will have to happen to service that debt? You know to pay the 3% of GNP that's being dug out of the foreigners by the money markets?

LESTER THUROW

You've got one thing here which economists know for sure and one thing which no economist can tell you. What you know for sure is that no country can forever run up its international debts. We won't pay the debts back in the foreseeable future, but we'll have to pay interest. If we run up a debt of 400 billion dollars, (our current debt is about 130, but we're adding to it at about a rate of 160 billion dollars a year), and the interest rate is 10%, that's 40 billion dollars worth of interest we have to pay back each year. That means you're going to have a direct 1% reduction in the American standard of living. What nobody can tell you is *when the crisis will occur* because we've never run the experiment of how much money will the world lend the richest country in the world.

QUESTION

At some point you'll have some kind of bond buyers strike.

LESTER THUROW

Yes, like Mexico in '82.

You have to distinguish between Reaganism as an economic strategy and Reaganism as a mood modifier.
—Ralph Whitehead, Jr.

QUESTION

And the way to get rid of that is to devalue.

LESTER THUROW

But to devalue means a reduction in American standards of living.

QUESTION

One of you said that the Democratic Party ought to talk more about the accomplishments of American society between 1945 and 1965. But between 1945 and 1965 we had just won a war; we had no international competition; unions dominated heavy industries; there wasn't serious competition. Are you calling for a return to economic conditions that were historically unique?

RALPH WHITEHEAD, JR.

I'm looking at it from a political and cultural perspective, not an economic perspective. Between the mid-40s and mid-60s, we moved the consumer from the edge of the economic universe to the center. (That's a very vulgar summary of Keynesian economics.) And we began to invest in consumers—invest in their purchasing power, talent, know-how. That is the premise of the post-war economic strategy that I was trying to stress.

The opportunity the post-war generation experienced did not come from the laissez-faire market. It was the GI Bill; it was FHA; and it was the expansion of Social Security... programs to help with housing, with education, and with your elderly parents.

—Barry Bluestone

We also entered into some international economic relationships in the 5 to 10 years after World War II that were not exploitative and turned out to be quite productive. And I think the spirit of international economic cooperation and the spirit of investment in our domestic economic resources would be the two elements from that time that I would cite as exemplary characteristics of the golden age.

QUESTION

I see your argument. So, if you were to run a Democrat the next time whose implicit message is "We won our spurs in the 50s and 60s," and the Republicans are saying "Let's look ahead to the 90s," isn't there still going to be the perception that views the Democrats as unrealistic?

RALPH WHITEHEAD, JR.

You're wisely challenging the premise as to whether there ought to be a Golden Age. That's a good challenge. I'm just saying *if* the Democrats want to, maybe privately in the retreats they've been holding, if they want to look to a Golden Age, I would suggest they not look to the 30s, that's all.

BARRY BLUESTONE

I would like to follow up on this. I think what Ralph is pointing to—Golden Age or not—is that the post-war period was one in which people saw real opportunity. The opportunity the post-war generation experienced did not come from the laissez-faire market of Ronald Reagan. It was the GI Bill; it was FHA; and it was the expansion of Social Security. We saw in that generation the development of programs to help with housing, with education, and with your elderly parents.

We have twisted that out of shape in the last 7 to 8 years, beginning in the second part of the Carter Administration by believing that the opportunity society is, in fact, the free market, the deregulated market, the small-government-is-beautiful market. In fact, it's not working.

To be sure, it appears to be working at times. Certainly, if you compare where we are today in 1986 with where we were in 1982, we're *obviously* doing better today. We don't have 10.8% unemployment. But outside of a few places like Massachusetts, where you have 3.7% unemployment, you find that people don't find all the opportunity Mr. Reagan is talking about. They worry about how they're going to put their kids through college; they worry about how they're going to take care of their parents. They worry about daycare. And they worry about job insecurity. *Somehow*, the Democratic party has to regain the image of a party which is concerned with opportunity and uses government to enhance opportunity. That's the major issue the Democratic party has to go to the voters with in 1986 and 1988.

QUESTION

I would like to know two things real quickly. First, in addition to the foreign trade cause of this growing inequality, what are two or three others?—you know, the major factors that lead to this?

Somehow **the Democratic party has to regain the image of a party which is concerned with opportunity and uses government to enhance opportunity.**

—Barry Bluestone

Second, who, again aside from the one name you mentioned, who says you're full of baloney? Who's a conservative economist or even a liberal economist who says these guys are reading it all wrong?

FRANK LEVY

In response to your first question, let me quickly give you one other factor affecting inequality. Demography is very important. If you look at who the bottom 20% of families are now and who they were in 1947 or even 1960, it's radically different today. In 1947, it was mostly elderly families and poor farmers. In 1984, it's female-headed families. One of the things that Social Security did in the 70s was to keep constant, or even raise, elderly income as the whole income distribution was sliding down around them. So, the elderly moved from kind of the bottom fifth to the second fifth of the income distribution.

Today it's a different stofy. I think one of the things you have to be worried about, with respect to future inequality, is that 30 years ago most families in the economy had one earner. Now, you have many families with no earners and many more families with two earners. Low wages have kept those gaps from growing large, but if wages start to grow again, there's some possibility of the upper part of the income distribution just totally pulling away from the bottom and the bottom just sitting there.

BARRY BLUESTONE

It's often argued that the business cycle is a major cause. During periods of boom, there is a closing of inequality and during recessions because of the "last hired, first fired" effect, there is an increase in inequality. There is something to that, but it turns out statistically to be a minor influence.

30 years ago most families in the economy had one earner. Now, you have many families with no earners and many more families with two earners.

—Frank Levy

In the work that Ben Harrison, Chris Tilly and I did for the Joint Economic Committee, we considered the impact of both the Baby Boom generation—those under 35—and the business cycle. We controlled for capacity utilization as a measure of the business cycle as well as the unemployment rate. We also controlled for the exchange rate, as though that were a business cycle variable. What we found is that demographics and the business cycle cannot explain more than a third of the trend. International trade,

the declining ability of the United States to be globally competitive, productivity changes, and the shift from manufacturing to services—all of these structural factors, we believe, are very important.

LESTER THUROW

Let me put one more demographic thing at you. We can calculate—because the Census Bureau keeps the data on—the incidence of working wives relative to their husband's income. So you can say 'what is the female participation rate for husbands who make below 5,000 dollars a year?' and so forth. What you saw in the 50s and 60s is that females going into the labor force were predominantly women married to relatively low earning men. What that meant was low earning families had a faster expansion of income because they were adding a second earner to that low wage family. By the 70s most of these low wage families had their women at work. The female participation rates going up most rapidly were for women married to men who were making 75,000 dollars and over.

QUESTION

So feminism is the problem?

LESTER THUROW

No. But you have to understand that what gives you more equality in one time period, can give you more inequality in another. We're opening up opportunities for women, but if you consider selective mating—which means the 75,000 dollar man is married to the 75,000 dollar woman—then you're going to open up income gaps.

FRANK LEVY

The trend that Lester notes is right, but wives earnings still make incomes more equal than they otherwise would be.

LESTER THUROW

That's true, but you have to take what the trend is doing as opposed to the level.

Now, in terms of who's on the other side. People don't usually argue with the data anymore. Take Robert Lawrence at the Brookings Institution. He wrote an article 6 to 9 months ago in the Brookings papers, saying the data is right. What they do say is there's some automatic feedback mechanism that's going to turn it around. Like the aging of the Baby Boom generation: when they all become 45 there will be some kind of automatic feedback and movement towards more equality. The opposition claims that this is just a kind of temporary surge in inequality that doesn't require any government action to offset it.

QUESTION

What is your answer to Lawrence's argument?

LESTER THUROW

It's a very peculiar argument. Economic theory tells you that if you have a lot of babies born in one year, they will have lower incomes for their *entire* careers. When they get to 45, there will also be a lump of 45 year olds. And 45 year olds will be forced to take some jobs that 45 year olds don't normally take when you have a smaller group of people in that age group. And since the lump doesn't disappear as they grow older, there's no reason to believe that the problems associated with the lump automatically disappear as they grow older.

The point that was made earlier is really critical—the important thing is that it's really the combination of demography *plus* an economy that wasn't performing. If you really had a booming economy in the 60s, 70s and 80s, then we would have absorbed the Baby Boom generation with many fewer economic travails. It is also important to emphasize the fact that the part of the Baby Boom generation that is losing ground is the 20th to 60th percentile.

If you really had had a booming economy all of the 60s and 70s and 80s, then maybe we would have absorbed the Baby Boom generation with many fewer economic travails.

—Lester Thurow

QUESTION

O.K., then you said that the problem of growth is not going to be solved—

LESTER THUROW

I didn't say that.

QUESTION

No. One has to assume that because....you're not going back to the 60s.

LESTER THUROW

No, I don't think that's right. The Democrats have to solve the problem of growth. In the 50s and 60s we had 3–4% productivity growth rate. That has got to be goal number 1. Any president who doesn't increase the rate of growth of productivity in some long historical sense is an economic failure.

QUESTION

Can you get that with a service economy?

LESTER THUROW

No. I think the answer is that you can't get it with a service economy. You have to have competitive manufacturing. I'll tell you why. First, if you take the government definition of services, which excludes retail trade and finance, you find that about 40% of the jobs are health care. Now, when we cap health care spending, which we are now doing, then that contribution to the growth of services will slow down very radically.

Second, another roughly 35% of those people are in what the government calls "business and legal consulting". But, they have to have somebody to consult with.

If you look at the fees earned on banking, insurance, the service things that are done in international trade, we run a deficit in services as well as manufacturing products. American service firms can be run out of business, just like American manufacturing firms can be run out of business. For example, the Japanese banks are now doing more of the Eurobond lending than the American banks.

RALPH WHITEHEAD, JR.

Presumably, one of the reasons the Japanese can make those loans is that they have the capital which they accumulated through manufacturing.

Any president who doesn't increase the rate of growth of productivity....is an economic failure.

—Lester Thurow

FRANK LEVY

One of the things you should keep in mind is the abysmal nature of the post-73 period. From 1947–73, service sector productivity grew more rapidly than the *total* productivity (including manufacturing) in the U.S. economy grew from 1973 on. That gives you a sense of what kind of sea change we had in the 1970s.

QUESTION

I wanted to check one figure. I think you made it, Lester. You mentioned that male wages are about where they were 10 years ago.

LESTER THUROW

No, they're 9% down.

QUESTION

What about female wages?

LESTER THUROW

If you take that same period, 76–84, that I was talking about: male wages went down 9.3%, but female wages went up 2.7%. It's one of the places we've made progress in the income distribution. The historic ratio of full-time female earnings to full-time male earnings used to be 57–58%. Now it's more 63–64%. But women have made most of their gains not because their income has gone up, but because men's income has gone down.

You've got male income falling 9% and female income rising not quite 3%. But GNP on a per capita basis rose 16%. Now, that only can happen obviously if you had a big shift towards capital income. So the capitalists in America, if you want to use that old-fashioned Marxist phrase, have a bigger share of the pot in 1984 than the capitalists in America had in 1976.

QUESTION

That's profits, interest, and capital income?

LESTER THUROW

Yes. All kinds of capital income.

QUESTION

What happened to the families?

FRANK LEVY

In 1947, family income was about $14,000 in today's dollar. It grew steadily and every three years it set a new record. By 1973 it was about $28,000. It never was that high again. Today it's about $26,500. Recall that it was in the mid-60s that the issue of female head of families emerged with the Moynihan report and so on. But despite that, even in the 60s, you have median family income going up by 30%. So, what we're seeing after '73 is real stagnation.

QUESTION

But it seems to me—somebody said—the reason the per capita's higher is that we don't have as many kids to split it up?

FRANK LEVY

That's right. We have more earners and fewer children—the greater proportion of the population is working.

QUESTION

And you view the fact that more people have to work as sort of a negative factor—that more people in paid work is an economic problem?

FRANK LEVY

No, I put it a different way. Russell Baker had a nice column about two years ago in which he noted that in 1950, if you had a husband and wife working, they'd own two houses and a boat. Today, you *need* two people working to make what is considered a middle class standard of living. That's the issue. Not whether two people want to work or not, but what can they get for the fact that they're working.

In 1950, if you had a husband and wife working, they'd own two houses and a boat. Today, you *need* two people working to make what is considered a middle class standard of living.

—Frank Levy

LESTER THUROW

Yes. Suppose you start by making $40,000 a year as a single individual and that the economy changes so that you and your wife *both* working, now make $40,000 a year. Wouldn't you consider that a deterioration in your standard of living? You still got $40,000 worth of income, but you used to get it based on only your effort, and now it takes the effort of both you and your spouse to produce exactly the same standard of living. It's not that your wife hates her job; it's the fact that your family has got to put a lot more effort in to get the old standard of living than it used to have to put in.

QUESTION

I'm very suspicious when you say people feel one way and the reality is another way, because I've seen too many elections where it turned out that people knew exactly what the reality was.

BARRY BLUESTONE

There is a significant group, not a majority, but a significant group of people in this country, who are doing quite well and have improved their standard of living substantially. The tax cuts certainly helped them in terms of after tax disposable income. To the extent—and this is a Democratic party problem—that that group of people is much more likely to vote than other people in the economy, the Republicans have an edge. That is, there may be a minority of the population who are benefitting from these policies; but they are a majority of voters.

LESTER THUROW

I'm now going to quote something, although I don't exactly remember where I read it. There was a sea change in the 1984 election—the percentage of the top 20% of the population in terms of income that call themselves Republican is going up very rapidly. The percentage of the bottom 20% of the population who call themselves Democrats is going up very rapidly. The problem is that the Republicans vote, the Democrats don't vote. The other thing is that the Republican Party has delivered to that top 20%. There's no question the top 20% of the population in America is *radically* better off than it was five years ago—on any measure of income, that top 20% is in much better shape.

RALPH WHITEHEAD, JR.

I think Lester may have been quoting the work that Tom Edsall has done. I share your instinct. I don't think you want to sit in Washington and suggest that the American people don't understand the evidence of their eyes and ears. And I don't think that's what any of us are trying to do.

The facts are: number one, that these economic changes that people are living with day by day are not easy to explain on the basis of any prior experience. Number two, the Democratic party, as the opposition to Reaganism, has not done a good job of understanding precisely what this new economic experience is, and has not tried to help people to interpret their economic experience. If, over the next few years, the Democrats gain a better understanding of the country, if they put the American experience back at the center of what they talk about and move away from discussing political issues as if they were OMB option papers, and if they use their eyes and ears, they may be able to come up with an account of people's economic experience and economic prospects that interprets what they're living through. The Democratic party has not done that yet. [To the questioner] Your standard is a good one.

QUESTION

I want to get Ralph Whitehead's reaction to something Frank Levy said a little earlier about people's attitudes—Baby Boomers attitudes toward kids. Correct me if I'm wrong, but in essence you said, "Do you think that you're living at the standards your parents were living at?" But then you correct that by asking "Could you support kids at this standard?" Is that a source of frustration that you're picking up? Or is it more of a social change in attitudes that alright, we're not going to have three-kid, five-kid, seven-kid families in this generation—it's just not something we're into?

RALPH WHITEHEAD, JR.

The way people feel about having children or the way they feel about the children they've already had varies enormously. There are people who are deferring children and regret it. There are people who are deferring children and think that it's a good bargain right now. There are people who have been unable to defer

If the Democrats...use their eyes and ears, they may be able to come up with an account of people's economic experience and economic prospects that interprets what they're living through.
—Ralph Whitehead, Jr.

children and feel saddled with them. Fortunately, the American people are flexible and resourceful and different people respond to these conditions in very different ways. And all you can do is try to identify the five or six families of response patterns and talk about those.

QUESTION

I'm just saying, you know, could a Huey Long come along and make the point: "Hey, you aren't having the kind of families that you might want to have, and it's because of this economy on your neck."

RALPH WHITEHEAD, JR.

As an Irish Catholic and the oldest of seven children, I don't know that my own views on this subject are of the moment. But, let me just mention that I think—and I hope this isn't just an expression of my background—I think that the creation of the Baby Boom was really an act of social confidence.

I think that when America came back from the war and chose to create the largest generation in its history, it was affirming its national confidence. And one of the ironies here is, if you want to deal in politics as one of the humanities for a moment as opposed to one of the social sciences, one of the ironies here is that a generation that was literally conceived in hope, now faces a set of economic conditions in the 80s and 90s that are not at all hopeful.

One of the ironies here is that a generation that was literally conceived in hope, now faces a set of economic conditions in the 80s and 90s that are not at all hopeful.
—Ralph Whitehead, Jr.

FRANK LEVY

I agree exactly with what Ralph said about the 50s. And it doesn't take a Huey Long to raise the issue. If in the future Mario Cuomo were to be saying "If things are so great, why is the birthrate so low?" I would not be surprised because that's the kind of issue that would fit naturally.

QUESTION

I have a question for Mr. Bluestone and perhaps Mr. Thurow can add some comments. You said, Mr. Bluestone, that the Democratic party needs to regain the initiative by using govern-

ment initiatives or incentives to enhance economic opportunity. Now, what kind of government initiatives are you suggesting? How would we pay for them? And how would the means of payment affect productivity, which Mr. Thurow says we must increase?

BARRY BLUESTONE

Let me give you a general answer and then a specific one. There is the perception (only partly correct) that during the period 1945 to 1965, the Democratic party and indeed part of the Republican party supported using government not only for low income people, but also for the middle class. That's the GI Bill; that's FHA and that's Social Security. The perception is that during the 60s, the Great Society and the War on Poverty moved all that money to the lowest end of the income distribution. It really didn't happen, but there was that perception. And I think that much of that perception has lingered. Much of the middle class has thought of the Democratic Party as the party of the poor, despite the fact that it hasn't been.

What specific recommendation would I make? I have been making a specific recommendation which, very interestingly, is supported by people like John Silber, the rather conservative President of Boston University and Bob Lawrence at the Brookings Institution whom I often debate. What all of us have suggested in one form or another, is that the way we finance post-secondary education—from vocational education to post-graduate education—makes no sense. It's based on loans and it's gotten hideously expensive. Parents try to pay for their kids' educations. Many people can't afford it and don't go at all.

What we've all suggested is that the government needs to create an equity program—a kind of GI Bill, but one which would be paid back. In this equity investment program, the government would guarantee to every citizen a $30–40,000 lifetime line of credit to pay for tuition and incidental expenses of post-secondary education. This will be paid back over their lifetime on the basis of a surtax on top of their personal income tax. Clearly, if we get income tax reform and tax rates down to the 27–30% top bracket, it makes a surtax quite reasonable.

What that would mean, is that we could pour a *lot* more money into post-secondary education, including vocational education and

The government needs to create a kind of GI Bill...[that would] guarantee to every citizen a $30–40,000 lifetime line of credit to pay for post-secondary education. This will be paid back over their lifetime through an income tax surtax.

—Barry Bluestone

retraining. It means that children would pay for their education, not their parents. It means we get a *much* greater investment in education and human resources in general for the economy. It means people get to pay back on the basis of ability to pay—rather than being strapped with loans which often force them to make occupational choices which make no sense for them.

This plan has a lot of things going for it. We need people—both Democrats and Republicans—coming up with innovative ideas about how we solve the housing problem, how we solve the education problem, how we solve the problem of health care, how we solve the problem of taking care of the elderly, how we solve the daycare problem. All of those are opportunity programs and they're not just for low income people, they're primarily aimed at the vast middle class.

RALPH WHITEHEAD, JR.

I did not know that was your idea. We have tested the essence of that idea in a number of surveys, and I don't think it has ever come in at less than 80% support.

LESTER THUROW

See, let me give you an example of where in some place the Democrats lost their roots. If you take higher education— college and universities—take the money the government spends on it, subtract the tuition that kids pay to state universities, it amounts to a 12,000 dollar subsidy per student. Ask yourself how much money does our society pay to subsidize the training and education of the non-college bound, that's 70% of the population? The answer is practically zero on a per student basis.

If in the future Mario Cuomo were to be saying 'If things are so great, why is the birthrate so low?' I would not be surprised.
—Frank Levy

The peculiar thing from the Democratic party point of view is that—I believe it's true—that the only Democratic president ever elected who got a majority of the college vote was Lyndon Johnson in 1964. FDR would have never been elected if only college voters could vote. No other Democrat ever would have been elected if only college voters could vote.

So, here you have a party that's taken the leadership and in some sense given a huge educational subsidy to precisely the people who don't vote for them. And the people who *do* vote

for them—the blue collar worker who wants to be a machinist, tool and die maker, etc.—they have no program of effective education whatsoever. And it seems to me it's *that* kind of thing the Democrats really have to start to focus on: something like Barry suggests—open not just to the people going to college. If you want to be a tool and die maker, you can use that money to buy tool and die making skills or electrical technician skills or whatever. It isn't just for somebody going to Harvard or the University of Ohio.

QUESTION

But, you're not suggesting an increase in social spending or what have you, as a means of financing this?

BARRY BLUESTONE

It wouldn't, in fact, involve a major net increase because it would be a restructuring of how education is financed. I would favor, as a matter of fact, an increase in our educational spending. Because I think that, fundamentally, productivity growth—if it is going to come about—is going to be based on that kind of human capital investment.

LESTER THUROW

Let me make an argument that no Democratic politician is going to make, but is nonetheless true. You know, the other day—about 2 or 3 months ago—the OECD announced for the first time Japan has passed us in terms of government spending as a fraction of GNP. If you're doing that, you can only compare state, local and federal all added up since governments do very different things.

Now, if you think about that, what you've got is the United States and Japan spending 33–34% of the GNP in government; you've got the English spending about 45% of the GNP in government; you've got the French and Germans spending about 50% of the GNP in government; you've got the Swedes spending about 65%. But, think about the Japanese for a moment, they spend 33–34% without a defense budget! We think of them as a very frugal society who wouldn't waste money on social spending. What they do is spend one hell of a lot more money on education than we do

If it takes 33% of the Japanese GNP in public spending to run the Japanese economy without a defense budget, then it is highly unlikely that we're going to run the American economy with only 26% of the GNP in civilian public sector activities, and still be competitive in the industrial world.

—Lester Thurow

and one hell of a lot more money on all kinds of social infrastructure investments than we do.

And, one of the things in the long run you have to ask seriously in the U.S. is, and I think the answer is, we undertax ourselves. If it takes 33% of the Japanese GNP in public spending to run the Japanese economy without a defense budget, then given that we put 7% of GNP into defense, it is highly unlikely that we're going to find that we can run the American economy with 26% of the GNP in civilian public sector activities, and still be competitive in the industrial world.

QUESTION

How do you raise taxes and productivity at the same time?

LESTER THUROW

Because you're going to make some public investments that will pay off. Government everywhere pays for research and development. We put 1.7% of the GNP into civilian R^5D; at the moment the Japanese put 2.5%. The Japanese government has announced a national program—and they've never violated these national programs—of bringing that up to 3.5% by 1995. Well, in 1995 if they're spending 3.5% of their GNP on civilian R&D and we're still spending 1.7%, where in the hell do you think that leads us?

QUESTION

How do you raise taxes and get elected?

LESTER THUROW

Nobody ever campaigns on this platform, but what happens when a governor gets elected and inherits a big deficit from his predecessor? They almost always ask for a huge tax increase—so large that two years later they can have a modest tax cut. That's what they did in Michigan, California, and Massachusetts.

And I think it's highly likely, even if George Bush were the next President of the United States, that come January 23, 1989, he'd say, 'Hey, I'm not going to have eight years before the foreigners

quit lending. The right time to raise taxes is January 23rd and blame it on Ronald Reagan, rather than wait two years and have foreigners dictate to me the fact that I have to raise taxes.' Because when the lending stops, foreigners will be in the position to dictate American economic policy, just like we attempt to dictate Mexican economic policy. And an American president doesn't want to put himself in that position, where he not only has to raise taxes, but the public will see him bowing and scraping to the rest of the world and then having to raise taxes.

QUESTION

You think you have that much time?

LESTER THUROW

I don't know. Ronald Reagan's a very lucky man.

RALPH WHITEHEAD, JR.

As Barry was suggesting before, I think there are pay-as-you-go mechanisms that can be built into some of these ideas that mean that they do not lead to higher taxes. I think it's very important to understand that when a younger voter says 'I am fiscally conservative', they virtually always mean they are fiscally conservative—*not* economically conservative. What they mean by fiscally conservative is, 'don't reach for your wallet first in thinking about how you solve the social problem.' Taxing and spending ought not to be the first card off the deck, but should possibly be the last card. There are other ways to solve problems and younger voters are responsive to relatively ingenious uses of public power, that are not bureaucratic, that do not involve taxing and spending, or a lot of programmatic bureaucracy. It's simply a matter of ingenuity to come up with what some of those opportunities might be.

LESTER THUROW

Can I put one example in? In Massachusetts they're in the process of passing a law that says every private company has to have a health insurance plan. It's not going to involve any taxes, but the government forcing private companies—lots of private companies don't have health insurance plans—to initiate a social program.

QUESTION

Going back to demographics: a lot of people say that when you have a lot fewer people in the workforce, incomes will automatically rise. Is that true or not?

FRANK LEVY

What you want to distinguish is rising in a relative sense—that is, closing the gap between younger and older workers—and rising in an absolute sense.

If the trend in wages had been up over the last twelve years, these kind of relative fluctuations because of demographics would have meant nothing to Baby Boomers. They still would have been doing much better off at 35 than they were at 25, even though older workers would have been doing better still. So, the demographics alone are not going to save you.

LESTER THUROW

The heart of the matter is raising the productivity growth rate of which international trade is only part of it. If you look at the second and third largest industrial economies in the world, both the Japanese and the Germans have huge manufacturing trade export surpluses. Which should tell you something about this idea that somehow technology is shifting towards the service economy. If that's what's happening—if it's just a beneficial technical change—why is it happening only in the United States? Why don't you see the same kind of shifts elsewhere?

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—Lester Thurow

There's something peculiar going on in the United States that's not going on in those other industrialized countries. The Germans and the Japanese are having productivity growth rates between 3 and 4%, while we're essentially, last year, down to zero. Even taking in the last seven years, we're between 0 and 1%. That wasn't true in the rest of the world. After the second OPEC oil shock in 1979, most of the rest of the world went back up to a reasonably healthy rate of growth of productivity. The United States didn't. And so, something's going on inside this economy that's different.

QUESTION

What? What is it?

LESTER THUROW

I'm going to talk about that in a moment. But first let me make one point about the manufacturing sector. There is an automatic rebound built in here. Eventually the trade deficit has to end because the dollar will fall enough to make it end. Then you'll see a movement back to the United States of some of that manufacturing. Now it will be accompanied by a reduction in the American standard of living because it may very well be that the dollar will have to fall 40%, to get 3% manufacturing back. If that happens what we gain in the extra manufacturing we'll more than lose in what economists call your "terms of trade." Imports will become much more expensive, so it won't mean a rise in the American standard of living. But it will mean a return of some of those manufacturing jobs.

Now, why is American productivity growth slow? Over a seven year period American productivity growth was 0.7% annually. Over that same seven year period of time, American firms reduced blue collar payrolls by 1.9 million, which was about a 6% reduction in their blue collar workforce. Over the same period of time, real output after correcting for inflation went up almost 15%. Now if you produce 15% more with 6% less, that's a 21% increase in productivity over seven years. Divide it by your seven years and that's something like about 3% growth—a little less when you compound. But, that's about world class, a little lower than the rest of the world, but not much. And so in that sense, nothing was wrong in the American factories.

But something major was going wrong in the American office. Because in that same period of time if you look at white collar workers—and this is leaving service workers out, so we're not including the service industry—white collar workers went up 10 million. That was a 21% increase in white collar employment. You only had a 15% increase in output. So you get a 6% *fall* in the aggregate in white collar productivity.

And on American payrolls at the moment we've got 58 million white collar workers and 30 million blue collar workers. So, if you have two people in the office for every one in the factory floor and office productivity is falling 6%, the fall in office productivity completely overwhelms most of the gain in blue collar productivity. This huge increase in white collar employment is not occurring in the rest of the world.

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—Lester Thurow

QUESTION

Is that because you can't measure the increase in productivity in computers, or because there is no increase?

LESTER THUROW

There's not a scintilla of evidence that any of the office automation has paid off anywhere in the economy.

FRANK LEVY

When you're talking about the superior performance of European productivity, you have to recognize that they had historically high unemployment rates. Opportunities shrunk for all of these countries after 1973. Europe dealt with it one way: by being brutal on unemployment and letting output per employed worker grow. We dealt with it quite a different way which was to create a lot of jobs while output per worker stagnated.

QUESTION

They do that because they believe in social solidarity. That is, the workers work to pay for the guys out of work. Everybody's quiet.

FRANK LEVY

That's right.

LESTER THUROW

Yes, but the question you can ask is why did American firms have to add white collar workers much faster than they were adding output? Look at 1985. In 85 you had the GNP up 2.1%. What do you think happened to the number of executives and managers on private American payrolls? Up 5.6%. American firms were adding managers almost three times as fast as they were adding output. Now the BLS now calls them "administrative support services" and not white collar workers. But, "administrative support services" were up 3.5%.—twice as fast as output.

QUESTION

Why?

FRANK LEVY

In 1980 it was fine for Reagan to ask 'Are you better off now than you were 4 years ago?' Again in 1984 just because inflation was down, it was a great question to ask. When you ask about the question in '88, I'm not so sure. I think things are going to be pretty flat between '84 and '88. And suppose you have somebody saying 'Well, if things are so great, why are we so deep in debt? and why is the birth rate so low?' Ask those two questions again and again, I think you begin to see that the Republicans aren't necessarily the party of the 90s.

BARRY BLUESTONE

Let me suggest that we may be looking at the wrong part of the Democratic Party and the Republican Party. I personally think we're going to see another round of very exciting experiments at the state level. This will occur in the same way as at the turn of the century when worker's compensation, unemployment compensation, mother's aid, occupational health and safety, child labor laws—all of these—were all experiments in states like Massachusetts and Wisconsin. Only later were they adopted nationally, during the 30s.

What I'm seeing now when I look at the Democrats is that the most exciting and innovative ones around are actually in the state houses. They're the Jim Blanchards from Michigan, perhaps the Mike Dukakises from Massachusetts; the Celestes, the Tony Earles, the Bill Clintons from Arkansas, who are putting together industrial policy plans. They may not call them that, but they are trying to become enlightened partners in economic development working with labor and with management in an era in which we're getting very little assistance from the federal government. I think the Democratic Party may learn a whole lot by looking at those governors—Cuomo's another—to see if in fact they aren't starting to come up with some of the ideas that begin to develop the new kind of opportunity society.

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LESTER THUROW

Let me emphasize that. Next Tuesday, I'm scheduled to meet with a group of western governors on what kind of industrial

strategy could the western governors use for those very depressed western states where mining and agriculture and timber have all gone down the tubes. And, you know, it isn't a federal government initiative. It's actually something headed by the governor of North Dakota.

RALPH WHITEHEAD, JR.

I think the Democratic question in 1984 was "Does a rising tide really lift all boats?" And I think what this panel is suggesting is that an interesting political question for 1988 will be "Is the tide really rising?"

QUESTION

I have a question about distribution of the increase in income, which appears to be concentrated at the top as opposed to being distributed among the entire workforce. Do you see any way to alter this? For example, do you think the service sector could be unionized? And would that have the same effect as unionization of the auto industry? And also, if a higher percentage of income is a going to profits and interest?

BARRY BLUESTONE

Clearly unionization in the non-unionized part of the sector is a very important part of the agenda. I think the reason for this goes beyond the employment security impact of unions. Unions are also important for economic growth, because the causal relationship runs from unions to higher wage demands and demands for fringe benefits to higher productivity. That is, union demands have often been the spur to new innovation in management. To the extent that the service economy lags behind in terms of its productivity growth or could be sped up, I think trade union activity, in fact, will do that. In the long run, one of the best spurs to productivity increase is unionization. So, even from a global perspective, there's a strong argument for unions.

An interesting political question for 1988 will be "Is the tide really rising?"
—Ralph Whitehead, Jr.

QUESTION

Do you think they're going to do it?

BARRY BLUESTONE

I think unions are going through a real soul-searching effort to try and figure out what strategies and new ideas will be able to appeal to a new generation of workers outside of the public sector. How do you appeal to a Route 128 or a Silicon Valley engineer? How do you appeal to that blossoming service sector in business services? I think unions have begun to think about these issues. The question is whether they run out of time before they come up with a solution.

LESTER THUROW

In answer to your other question. Interest rates have made a big difference. In the 1960s and early 70s when international rates were very low, personal interest income was a very small fraction of the GNP. Personal interest income now is a rather larger fraction of the GNP because interest rates are much higher. And, if interest rates go from 4% to 20%, who wins? Well, the people who win are the *lenders* who now are getting 20% on their money where they used to get 4%. Who are the lenders? Basically a high income group. So when you move to a high interest rate economy, you're automatically going to move more of the GNP over toward the interest-receiving group and the interest-receiving group is heavily a high income group.

JEFF FAUX

We're going to have to cut this off now. I'm sure if you have any other questions, you can come up and talk to the panelists. Thank you very much for coming. If you haven't put your name on our list, please do it now so we can invite you to the next one.

Unions are also important for economic growth, because...union demands have often been the spur to new innovation in management.

—Barry Bluestone

Participants:

Frank Levy is Professor of Public Affairs at the University of Maryland's School of Public Affairs. He is the co-author, with Richard Michel, of the forthcoming book, *Dollars and Dreams: The Changing American Income Distribution*.

Barry Bluestone is the Frank L. Boyden Professor of Political Economy at the University of Massachusetts, Boston. He is the co-author, with Bennett Harrison, of *The Deindustrialization of America*. He is one of the founders of the Economic Policy Institute.

Lester Thurow is the Billard Professor of Economics and Management at MIT's Sloan School of Management. He is the author of *Generating Inequality*, *The Zero-Sum Society*, and *The Zero-Sum Solution*, among other books. He is one of the founders of the Economic Policy Institute.

Ralph Whitehead, Jr. is the Public Service Professor of the University of Massachusetts, Amherst. He is the author of many articles, including "More Votes, More Heart" about 'New Collar' voters (Boston Globe Magazine, April 14, 1985.)

Jeff Faux is the President of the Economic Policy Institute. He is the co-author, with Gar Alperovitz, of *Rebuilding America*.

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FOR FURTHER READING

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